

LEGISLATIVE AUDIT COMMISSION



Review of
Medical District Commission
Two Years Ended June 30, 2002

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**REVIEW: 4192
MEDICAL DISTRICT COMMISSION
TWO YEARS ENDED JUNE 30, 2002**

FINDINGS/RECOMMENDATIONS - 6

IMPLEMENTED - 6

REPEATED RECOMMENDATIONS - 1

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 3

This review summarizes the audit of the Medical District Commission for the two years ended June 30, 2002, filed with the Legislative Audit Commission March 13, 2003. The auditors performed a financial and compliance audit in accordance with State law and *Governmental Auditing Standards*. The auditors stated the financial statements are fairly presented.

The Medical District Commission was created July 1, 1941, by the authority of the Medical Center District Act. The Medical Center District was created to provide assembled development sites and to facilitate and coordinate the resources of diverse educational, research and governmental medical institutions and to enable such institutions to provide low cost medical care, accelerate scientific research, improve diagnostic methods, and train health care professionals. The Commission has been given the responsibility to administer and exercise authority with respect to the development and operation of the Chicago Technology Park.

The Commission is directed by seven members (Commissioners) of which four are appointed by the Governor, two by the Mayor of Chicago, and one by the President of the Cook County Board. The Commissioners serve a five-year appointment. Mr. David Livingston was the Commission's Executive Director for the two-year period covered by the audit. Mr. Livingston retired in August 2003. The Commission's Interim Executive Director is George W. Davis. The Commission's office is located at 600 South Hoyne, Chicago. The Chicago Technology Park is located at 2201 West Campbell Park, Chicago.

The average number of employees was:

2002 - 28; 2001 - 22; 2000 - 25.

The above schedule includes approximately 8-14 professional, maintenance and clerical positions paid from the Commission's locally held funds and nine contractual employees.

Expenditures From Appropriations

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Appendix A presents a summary of appropriations and expenditures for the period under review. The General Assembly appropriated a total of \$6,183,941 (\$1.182 million from the General Revenue Fund and \$5 million from the Capital Development Fund) in FY02. Total expenditures decreased from \$6,168,392 in FY01 to \$5,019,412 in FY02. A decrease in appropriations to the Capital Development Fund caused a decrease in property acquisitions, demolitions, and site improvements within the Medical Center District. Personal service expenditures increased due to one promotion, merit increases, and overtime/compensatory payments.

Locally Held Funds

The Commission has six locally held funds which are as follows:

Property Management Fund: Revenue is derived from the management of real property and ancillary services. Expenditures are for the maintenance of the property and for related administration costs. The Fund is a non-appropriated, locally administered fund;

Chicago Technology Park Research Center: Revenue is received from rental income from the rental of lab space and the Research Center Incubator facilities. Expenditures are for the maintenance of the rental property and for the administrative costs of the facilities. The Fund is a non-appropriated, locally administered fund;

Chicago Technology Park: Revenue is received from rental income from the rental of parking spaces. Expenditures are for the maintenance of the parking facilities and for the upkeep of the Park's grounds. Also included in this fund is revenue collected from the rental of space within the Enterprise Center. The Fund is a non-appropriated, locally administered fund;

Revolving Fund: This fund was established to enable the prompt payment of relocation and related costs for the District Development Project and is generally used to immediately pay invoices and later be reimbursed from the Capital Development Fund appropriation. Revenue includes reimbursements from the State and tax and other credits collected in property closings. Expenditures are for expenses of the District Development Project and rehabilitation projects within the District. The Fund is a non-appropriated, locally administered fund;

District Member Council Fund: This fund was established to segregate funds for projects agreed upon by the District member Council (Representatives of the four major institutions in the Illinois Medical District) for which contributions are made by the institutions to cover costs. Projects to date have included joint marketing materials, banners and landscaping in specific areas. The Fund is a non-appropriated, locally administered fund; and

Chicago Technology Park Corporation: Is an Illinois not-for-profit corporation that was organized to directly or indirectly assist the Illinois Medical District Commission with its

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statutory mission of developing and maintaining the Chicago Technology Park. This is a non-appropriated, locally administered fund.

Revenues for the six locally held funds were about \$2.46 million in FY02 compared to \$2.68 million in FY01. Expenditures from the funds were \$2.44 million in FY02 and \$2.85 million in FY01.

Appendix B presents the statement of net assets for the six locally held funds, the General Revenue Fund and the Capital Development Fund. Total assets in the statement of net assets is \$33.9 million and includes almost \$28.7 million in capital assets, net of accumulated depreciation. Appendix C presents the statement of revenues and expenditures for all funds. Total revenue was \$2,040,356 in FY02. Due to the adoption of new governmental accounting standards, only data from FY02 is presented. Future audit reports will present a comparative analysis.

Accounts Receivable

Accounts receivable totaled \$250,130 as of June 30, 2002, of which \$113,219 is over 180 days outstanding. The amount considered uncollectible is \$106,849, all from the Chicago Technology Park Research Center Fund.

Property and Equipment

Appearing in Appendix D is a summary of property and equipment transactions of the Commission during the two-year period under review. The balance increased from \$21,810,253 as of July 1, 2000 to \$30,095,996 as of June 30, 2002, largely due to additions in land and land improvements.

Accountants' Findings and Recommendations

Condensed below are the six findings and recommendations presented in the audit report. There was one repeated recommendation. The following recommendations are classified on the basis of information provided by George W. Davis, Interim Executive Director, via email dated January 14, 2004.

Implemented

- 1. Develop procedures to ensure that personnel files are accurate and completed and that employee evaluations are documented and retained.**

Implemented - continued

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Findings: The auditors examined the personnel files for 15 of 26 employees and noted the following:

- Three files did not contain evidence of an annual performance evaluation;
- Four files did not contain evidence that the employee authorized certain payroll deductions such as retirement contributions and/or health insurance deductions; and
- Two files did not contain either an employment application or a resume.

Response: Implemented. The Commission completed the annual reviews for each staff person for the FY02 and FY03. FY04's reviews are in process as they occur on the anniversary dates of each employee. The complete documentation including payroll deduction authorizations are filed in reorganized personnel files. In addition, as further control, the personnel files are reviewed for comprehensiveness semi-annually.

2. Implement procedures to ensure that travel regulations are adhered to.

Findings: The auditors had difficulty determining whether travel expenditures were reasonable because travel and marketing expenditures were commingled on the same requests for reimbursement. Further, the required travel expense reimbursement form (C-10) was not used.

The Agency did not have clear procedures for distinguishing between travel and marketing reimbursements. One reimbursement request covered dates in February, March and April, 2002. The State per diem rates and meal allowances were not used. Reimbursements appear to be for actual meal expenses. Sometimes expenses for more than one State employee appeared on the same reimbursement request. There were lodging reimbursements in excess of the allowable State rate. However, these exceptions to the travel regulations were not submitted to the Travel Control Board for approval. Finally, the purpose of travel was not always stated.

Response: Implemented. Travel procedures set forth by the Travel Control Board have been fully implemented. In all semi-annual staff meetings, the Executive Director includes instruction and a complete review of the travel procedures, and written procedures are circulated as a reminder. Travel Control Board revisions are promptly and contemporaneously circulated and implemented. Necessary chart of accounts changes have been made.

3. Implement procedures to ensure that the property and equipment records are properly maintained. (Repeated-2000)

Findings: The Agency's property control records and its reporting of State property were inaccurate. The auditors tested 35 equipment items and noted the following:

- Nine items totaling \$55,266 were in a location other than the one listed on the property control records.

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- One item with a cost of \$3,286 did not have an Agency tag number on it.
- Two items with a cost of \$2,887 were recorded as the wrong tag number in the property control records.

In addition, the auditors noted the following:

- Two of 10 equipment additions tested were recorded incorrectly resulting in a \$180 understatement of the cost of these items.
- In seven of the eight quarterly reports to the Comptroller tested, the Agency did not report assets under capital leases (three copiers and a mailing machine). The leases were reported in the last quarter of FY02.
- The Agency does not maintain an inventory of equipment items with a cost of less than \$500.

Response: Implemented. Capital leases are reflected in the Quarterly C-15 reports. The Commission purchased an additional tag sequence to mark the equipment with a value less than \$500. The Commission revised its sub-ledger. The records are being converted to a more sophisticated database in order to more accurately maintain the asset records. In addition, the agency-wide inventory control routine was modified.

4. Implement procedures to ensure that the annual evaluation of the Agency's fiscal and administrative internal control systems is appropriately conducted and documented.

Findings: Although the Agency submitted its Fiscal Control and Internal Auditing Act Certifications to the Office of the Auditor General in FY01 and FY02, it did not actually complete the standard evaluation applicable to its internal fiscal and administrative controls in accordance with the guidelines established by the Comptroller in consultation with the Director of CMS. Further, the Agency could not provide documentation of the internal control reviews that were undertaken.

Response: Implemented. The Commission completed the standard evaluation recommended by the Comptroller for FY02 and FY03 in appropriate form manner. The Commission completed documentation and augmented our internal controls where appropriate based upon the results of such evaluations.

5. Develop procedures to ensure that all acquisitions of capital assets are promptly recorded and properly reported.

Implemented - concluded

Findings: The Agency failed to record and report certain capital expenditures on its property records, its Agency Report of State Property (Form C-15), and on its GAAP package.

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The auditors examined 27 equipment and permanent improvement expenditures totaling \$958,346 and noted five totaling \$220,909 were not recorded on the Agency's property control records or its Form C-15s. However, three of the items were recorded on a list of site improvements that the Agency was tracking to be added to the property control records in the future, but the Agency did not report them as construction in progress (or any other type of capital asset) on the GAAP package.

Response: Implemented. The Commission revised the C-15 reporting procedure. The accounting staff has studied the entire section of the SAMS manual with regard to assets and depreciation procedures. A revised recording procedure has been developed to include a detail asset notebook and on-going procedures for maintaining it. Reorganized database procedures have been developed to codify all contracts according to revised asset guidelines to further assist in identifying and properly recording assets.

6. Implement procedures to ensure that accounting records are appropriately maintained in accordance with generally accepted accounting principles.

Findings: The Agency did not have adequate controls to ensure that accounts payable and accounts receivable were properly recorded. Also, a component unit should have been included in its financial reporting entity.

The auditors reviewed payments for FY01, and five payments totaling \$34,556 were determined to be liabilities, but the Agency had not recorded these liabilities. Similarly, three of 36 payments reviewed for FY02 totaling \$28,601 were liabilities, but not recorded. Also, the Agency did not record a transaction for FY02 related to a \$332,059 grant from DCCA. Finally, the financial activities of the Chicago Technology Park Corporation had not previously been included in the financial reporting entity of the Agency.

Response: Implemented. The reporting for Fund 1265 (Chicago Technology Park) has integrated The Chicago Technology Park Corporation as a component unit in its quarterly and annual reporting. Additional internal protocols are in place to properly record and timely recognize revenues relative to intrastate grants in accordance with the GASB 33 regulations. Increased month-end, quarter-end, and year-end procedures have improved the financial reports to accurately adhere to the generally accepted accounting principles.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for

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repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY01 and FY02 the Commission filed no affidavits for emergency purchases.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time. The Commission indicated as of August 2002 that no employees were assigned to locations other than official headquarters.